

What did COP26 really achieve and what will be its impact on the investment industry?

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As the dust settles on COP26, Ogier's Head of Sustainability Andrea Leung asks whether the negotiations were a success or a failure, and examines their impact on the global finance industry.

The Glasgow Climate Pact was agreed by 197 countries. But while many consider these to be the most significant climate talks since the 2015 Paris Agreement, not everyone shares this sense of triumph.

The stakes at COP26 could not have been higher - this was a summit on climate change, an unprecedented global threat to humanity. So was it a success or failure? The answer is not exactly straightforward. In short, COP26 made some wins but it also had shortcomings.

The UN Secretary General Antonio Guterres put it best when he said, "Outcome is a compromise, reflecting the interests, contradictions and state of political will in the world today. It's an important step, but it's not enough. It's time to go into emergency mode. The climate battle is the fight of our lives and that fight must be won."

The wins of COP26

One COP is never expected to be the game changer to solve the deep climate crisis, but COP26 did deliver many significant achievements, which were made both within the formal negotiations and around the COP, where commitments were made by non-state actors.

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The shortcomings of COP26

The major shortcoming is that the commitments made so far still fall short in achieving the Paris Agreement goal. Another central issue is around finance, commitment credibility and the trust between developed and developing countries, which has been the battleground since the beginning of the international negotiations.

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Initiatives from around the COP

COP26 created huge amount of momentum and catalysed many ambitious initiatives created outside the formal COP proceedings, which included commitments from businesses, financiers and philanthropists, which included:

- Powering Past Coal and Global Coal to Clean Power Transition Statement.
- The Glasgow Breakthroughs on technology innovation in five sectors: power, transport, steel, hydrogen and agriculture.
- First Movers Coalition of major global buyers committing to help commercialise key emerging clean technologies across hard-to-decarbonise sectors eg steel, concrete, shipping and aviation.
- Over 100 countries signed up to the Global Methane Pledge aiming to reduce global methane emissions by 30% by 2030. UN reports^[4] find that methane emissions reduction is a cost-effective solution to close the emissions gap and reduce warming in the short term.
- Glasgow Leaders' Declaration on Forest and Land Use covering 90% of forests worldwide aiming to halt and reverse forest loss and land degradation by 2030.
- Declaration on accelerating the transition to 100% zero emission cars and vans globally by 2040, signed by almost 40 countries and over 100 cities/regions, vehicle manufacturers, fleet owners and operators and investors.
- The Global Energy Alliance for People and Planet funded by some of the world's largest

philanthropies including the Rockefeller Foundation, IKEA Foundation and Bezos Earth Fund. The Bezos Earth Fund also announced the single largest pledge of US\$2 billion at COP26 for restoring nature and transforming food systems.

What does the outcome of COP26 mean for the investment community?

Finance is critical to the successful implementation of the initiatives mentioned above. It is estimated that US\$125 trillion of investment is required to transform our economy and private actors play a critical role in helping to deliver these investments.

On the Finance Day at COP26, the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition of financial institutions and investors from over 450 firms across 45 countries, announced that over US\$130 trillion of private capital is committed to transforming the economy for net zero.

But in order to deliver this massive amount of clean finance, the right framework is required to enable a transformational shift in investment strategies. The financial sector needs science-based information, quantity and quality of climate-related disclosure and standardisation to streamline the process, avoid confusion and greenwashing. While recognising the climate emergency and challenges ahead in developing such a robust global framework, financial institutions cannot wait for perfect methodologies to start their net-zero transformation. The global coalition provides a good platform where financial actors can share best practices.

Plans were also announced for making the UK the world's first net zero aligned financial centre. Initially, this will require asset managers, regulated asset owners and listed companies to publish transition plans that consider the government's net zero commitment. A Transition Plan Taskforce will be set up to develop a gold standard for transition plans.

Conclusion

Climate crisis is imminent. Ambitious climate actions are urgently needed, and the investment community faces unprecedented risks, as well as opportunities, and can play a critical role.

COP26 is a big deal for the industry, and corporates and financiers responded positively and helped drive the deal forward. Some may even credit the industry with providing more solutions and moving faster than governments.

Climate change has also become a prominent public concern. To respond to public expectations and fulfil obligations under the international treaty, national governments will have to set more ambitious emissions targets and translate them to actions, policies and laws. These rules, as well as the physical climate risks, will inevitably have implications for businesses and the investment community.

For example, a new law requiring large UK-registered companies to disclose climate-related financial information will come into force from April 2022. If companies and industries fail to adapt

to the transition to a low-carbon economy, they will fail to exist, said Mark Carney, Co-Chair of GFANZ and the UN Special Envoy for Climate Action and Finance.

On the other hand, business opportunities will certainly arise from the global decarbonisation where there is inevitably demand for low carbon technology, goods and services. It is evident from the GFANZ that capitals are available for low carbon assets and projects. Firms across the entire financial spectrum - asset owners, asset managers, insurers and institutional investors - are serious about decarbonising their portfolios as climate risks impact the value of the investments. They are committed to aligning their investment portfolios with the Paris Agreement and shifting capitals from brown to green which, in turn, presents more promising long-term returns and prosperity.

As Alok Sharma, COP26 President, said: "1.5°C has been kept alive. But its pulse is weak and it will only survive if we keep our promises and translate commitments into rapid action. We must now move forward together and deliver on the expectations set out in the Glasgow Climate Pact, and close the vast gap which remains. Because as Prime Minister Mia Mottley told us that for Barbados and other small islands states, 'two degrees is a death sentence.'"

Ogier's approach to environmental sustainability

Ogier is committed to making contributions to the global transition to net zero. We are committed to reducing our Scope 1 and 2 emissions by 2030 and setting net zero targets according to Science Based Targets Initiative's methodology. The climate strategy forms part of our three pronged approach to sustainability and ESG. We have a team of lawyers across service-lines and jurisdictions who are equipped to advise on legal and regulatory matters related to sustainable investment and ESG, as well as Ogier Global's Sustainable Investment Consulting, a dedicated consultancy offering bespoke design, integration, management and reporting solutions to our clients.

[1] <https://unfccc.int/news/cop26-update-to-the-ndc-synthesis-report>

[2] <https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/>

[3] <https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/>

[4] *There are readily available targeted measure to achieve 30% reduction. With another 15% more emissions reduction, nearly 0.3oC of global warming can be avoided:*

https://wedocs.unep.org/bitstream/handle/20.500.11822/35917/GMA_ES.pdf

<https://www.unep.org/resources/emissions-gap-report-2021>

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